To the Board of Directors of Philip Morris & Co. Ltd., Incorporated:

We have examined the consolidated balance sheet of PHILIP MORRIS & CO. LTD., INCORPORATED and its wholly owned English subsidiary, as of March 31, 1942, and the consolidated statements of income and earned surplus for the fiscal year then ended, have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary.

In our opinion, the accompanying balance sheet and related statements of income and earned surplus present fairly the consolidated position of the company and its English subsidiary at March 31, 1942, and the consolidated results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Gbrand Ross Ford orfontjoner

New York, June 3, 1942.



PHILIP MORRIS & CO. LTD., INCORPORATED

(Incorporated in Virginia)

and its Wholly Owned English Subsidiary

CONSOLIDATED BALANCE SHEET, March 31, 1942

ASSETS:

Military and the state of the s				Labilities:		
Demand deposits in banks and cash on hand		\$ 3,157,416.97	Notes payable, banks			\$ 8,000,000.00
Accounts receivable: Customers (less allowance for discounts and for doubtful accounts)	\$5,950,795.70		Accounts payable: Trade creditors Dividends payable: On Cumulative Preferred Stock,		\$ 667,550.78	
Others	304.031.56	6,254,827,26	payable May 1, 1942 On Common Stock, payable	\$ 158,306.25		
Inventories of leaf tobacco (including			April 15, 1942	2,458,478,00	2,616,784.25	
imported leaf in bond subject to duty), cigarettes and smoking tobacco			Others		140,363.22	3,424,698.25
in process, manufactured stock and other materials and supplies, at		ET 147 777 77	Provision for taxes, additional compensation, storage, etc.			8.007.486.62
average cost		53.143.337.72	Total current liabilit	iles		19,432,184.87
Total current assets		62,555,581.95				
			**	APITAL:		
Investments, at average cost (at market quotations, \$576,779)			Capital stock: Cumulative Preferred Stock, par vs \$100 per share:	lue		
Prepaid expenses and deferred charges to operations		511,720.92	Authorized 200,000 shares; is: and outstanding 148,991 shares	, 897		
Advances to supplier		468,750.00	4-1/4% Series (Note 2) Common Stock, par value \$10	14,899,100.00		
Other investments, at cost		10,800.00	per share: Authorized 1,000,000 shares;			
Fixed assets, at cost: Land	115,282.96		issued and outstanding 894,026 shares, of which			1002330640
Buildings, machinery and equipment \$5,235,586.2	25		276,000 shares were issued for \$4 per share	7.284.260.00	22,183,360.00	<u> </u>
less, Allowance for depreciation 1.621.416.	45 3.614.169.80	3,729,452.76	Surplus: Capital (no change during year)	10,570,164.51		8
Good will, trade-marks and brands, at cost		67,834.56	Earned, of which approximately \$11,037,000 is not available for payment of dividends on			6
			Common Stock under terms of issue of Cumulative Preferred			
		ACO 000 COO ==	Stook	16.632.920.15	27.203.084.66	49.386.444.66
		368,818,629,53				\$68,818,629.53

The accompanying notes are an integral part of this balance sheet.



BALANCE SHEET NOTES

- 1. Net current assets and total net assets of the English subsidiary, translated into U. S. dollars and included in this balance sheet, were \$147,798.01 and \$244,816.89, respectively. Operations of the subsidiary for the year ended March 31, 1942 resulted in a net profit of \$8,448.47.
- 2. The Cumulative Preferred Stock, 4-1/4% Series is redeemable at \$105 per share on or before April 1, 1944, and thereafter at diminishing amounts (not less than \$102.50 per share), plus accrued dividends in all cases. Holders of the Cumulative Preferred Stock are entitled to the redemption prices upon voluntary liquidation and to \$100 per share plus accrued dividends upon involuntary liquidation.
 - Under the terms of this issue, the company is required to set aside in a sinking fund, within 80 days after the end of each fiscal year, beginning with the year ended March 31, 1942, certain amounts to be used for redemption purposes or it may use preferred stock in treasury for that purpose. The amount to be so set aside on or prior to June 19, 1942 will be \$156,450, but the company reacquired 1,500 shares of such preferred stock in April, 1942 of which it intends to apply 1,490 shares in satisfaction of the aforementioned requirement.
- 3. At March 31, 1942 the company had instructed certain companies, acting as its agents, to purchase leaf tobacco for it in foreign countries, the aggregate cost of which tobacco was reported to be approximately \$2,300,000. This amount is not reflected in inventories or liabilities in the balance sheet. The company believes itself adequately protected by marine and war risk insurance against losses to this tobacco while in transit, except that insurance against land war risk is not available.
- 4. Subsequent to March 31, 1942 the company issued 49,666 shares of Cumulative Preferred Stock, 4-1/2% Series and \$6,000,000 principal amount of Twenty Year 3% Debentures, due May 1, 1962. The proceeds of these issues and the related expenses are not reflected in this balance sheet.
 - On or before November 1, 1942 the company is required to pay to the Trustee for the holders of the debentures a sum sufficient to redeem on May 1, 1943 \$100,000 principal amount of debentures (at 102% of the principal amount) or it may substitute debentures for all or part of the payment. No sinking fund payments for the Cumulative Preferred Stock, 4-1/2% Series are required to be made prior to June 19, 1943.



CONSOLIDATED STATEMENT of INCOME for the year ended March 31, 1942

Net sales		\$112,565,200.82
Cost of sales		87,406,322.29 11.
Gross profit from operations		25,158,878.53 👯
Shipping, selling, general and administrative expenses		10,903,919,50 41
Net profit from operations		14,254,959.03131
A d d: Dividends received	\$ 92,525.33	
Other income	100.844.16	193,369.49
		14,448,328.52
Deduct: Interest paid	36,407.36	
Provision for additional compensation to officers and employees, in accordance with authorization of stockholders at meeting of July 20, 1937	408.138.33	444,545.69
Net income, before provision for federal taxes on income		14,003,782.83
Provision for federal taxes on income, including \$2,521,500 for excess profits tax		6,211,217,40
Net income for the year		\$ 7.792,565.43

Note: Provision for depreciation amounted to \$335,235.74 in the year ended March 31, 1942.

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CONSOLIDATED STATEMENT of EARNED SURPLUS for the year ended March 31, 1942

Balance, March 31, 1941

\$13,943,674.64

Add, Net income for the year ended March 31, 1942

7,792,565.43

21,736,240.07

Deduct:

Cash dividends declared:
On Cumulative Preferred
Stock, 4-1/4% Series
On Common Stock

\$ 633,231.42 4,469,928.50 \$5,103,159.92

16 full shares of Common Stock issued in exchange for 32 Common Stock Dividend Scrip Certificates, Series A, which certificates were issued in connection with stock dividend paid November 15, 1938, at par value

160.00 5,103,319.92

Balance, March 31, 1942

\$16,632,920.15

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